



STATE ACCOUNTING OFFICE

www.sao.georgia.gov

Fiscal Leadership for Georgia

Fiscal Management Council

May 7 - 10, 2006

Financial Reporting Issues

Agenda

- Budgetary Reporting
- Other Reporting Requirements
 - GASB Issues
 - Federal Expenditure Reporting
- Audit Issues
- Training and Deadlines

Before we get started . . .



Budgetary Reporting - Then

Object Class Budgeting

- Revenues – State, Federal, Other
- Expenditures by Object Class
- Legal level of Budgetary Control:
Expenditures by object class

Budgetary Reporting - Now

Program Budgeting

- Revenues – Emphasis on sources of funding
- Expenditures – Emphasis on purpose, rather than object, of expenditure
- Legal level of Budgetary Control:
Program expenditures by funding source

Budgetary Reporting

Format of Budget Comparison Report

- Four columns:
 - Original appropriation
 - Final budget
 - Actual
 - Variance from final budget

Budgetary Reporting

Format of Budget Comparison Report (continued)

- Two-tiered approach
 - Budget Unit level
 - Program level

Budgetary Reporting

Budget Unit Level (Operating statement format)

- Revenues
 - State (General, Lottery, Tobacco)
 - Federal (detail)
 - Other (detail)
- Expenditures by Program

Budgetary Reporting

Program Level

(each program listed individually)

- No Revenues
- Expenditures by Funding Source
 - State (General, Lottery, etc.)
 - Federal (detail)
 - Other (no detail)

Budgetary Reporting

Methodology

- Communicate mapping strategies
(how do you get to "program"?)
- Verification of results
- CPAs must be notified of new requirements

Other Reporting Requirements

GASB Issues

- GASB 42

Accounting and Financial Reporting for
Impairment of Capital Assets and for
Insurance Recoveries

Other Reporting Requirements

GASB 42 (continued)

Impairment – a significant, unexpected
decline in the service utility of an asset



Other Reporting Requirements

GASB 42 (continued)

Impairment Indicators

- Evidence of physical damage
- Change in legal or environmental factors
- Technological development or evidence of obsolescence
- Change in manner or expected duration of use
- Construction stoppage

Other Reporting Requirements

GASB 42 (continued)

Impairment Test (both must be present)

- Magnitude of decline is significant
- Decline in service utility is unexpected

Other Reporting Requirements

GASB 42 (continued)

What if I have an impairment?

- Report on “General Information” form (separate tab related to impairments)
- SAO will gather additional information as needed

Other Reporting Requirements

GASB Issues (continued)

- GASB 44
Economic Condition Reporting: The Statistical Section

Other Reporting Requirements

GASB 44 (continued)

Categories of Statistical Information

- Financial Trends
- Revenue Capacity
- Debt Capacity
- Demographic and economic
- Operating

Other Reporting Requirements

GASB 44 (continued)

Financial Trends (10-year data)

- Net Assets/Changes in Net Assets
(Gov'tl Activities, BTA, Total PG)

- Fund Balances/Changes in Fund Balances
(GF, other Gov'tl Funds)

Other Reporting Requirements

GASB 44 (continued)

Revenue Capacity

- Based on “most significant own-source revenue”
 - Revenue base
 - Revenue rates
 - Principal revenue payers

Other Reporting Requirements

GASB 44 (continued)

Debt Capacity

- Ratios of Outstanding Debt
- Direct & Overlapping Debt (n/a for States)
- Debt Limitations
- Pledged-Revenue Coverage (non-GO debt)

Other Reporting Requirements

GASB 44 (continued)

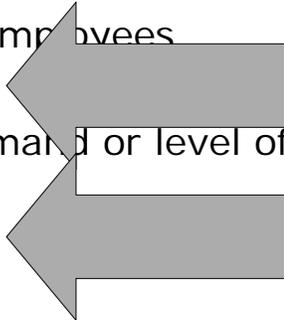
Demographic & Economic Information

- Population
- Total Personal Income
- Per Capita Personal Income
- Unemployment Rate
- Principal Employers

Other Reporting Requirements

GASB 44 (continued)

Operating Information

- Number of Government Employees
 - Operating Indicators
available indicators of demand or level of service
 - Capital Asset Indicators
volume, usage, or nature
- 

Other Reporting Requirements

GASB Issues (continued)

- GASB 46

Net Assets Restricted by Enabling Legislation

The screenshot shows an Excel spreadsheet with the following structure:

STATE ACCOUNTING OFFICE		ENDING FUND BALANCE WORKSHEET		FISCAL YEAR 2005	
Agency	Fund Name	Per Report			
Fund Balances:					
Reserved State (Detail)					
Federal (Detail)					
Other (Detail)					
Unreserved Designated					
Undesignated Surplus					
Regular					
Lottery for Education					
Tobacco Settlement Funds					
Other					
Total Fund Balances - June 30, 2005			\$	0.00	

Other Reporting Requirements

Federal Expenditure Reporting

- Enhancements to web portal
 - Excel/on-line reports
 - Confirmation of audit adjustments
 - Improved messaging and navigation
 - Deadline (August 15)

Audit Issues

- Capital Assets
- Capital and Operating Leases
(GBA also collecting information)

Training

- June/July
- Separate class for PeopleSoft / non PeopleSoft
- Overview of all forms, but specific forms will be highlighted (we welcome suggestions!)

Deadlines

- No significant variance from 2005
- Majority will be due by September 29
- Communications via SAO web site

SAMPLE, DEPARTMENT OF

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Healthy Georgia				
Expenditures by Funding Source:				
State Appropriation				
State General Funds	\$ 37,337,936.00	\$ 37,588,631.00	\$ 37,495,902.62	\$ 92,728.38
Federal Funds				
Special Federal Assistance Grant	392,150.00	800,040.00	227,154.76	572,885.24
Federal Funds Not Itemized	80,000.00	141,919.00	108,253.42	33,665.58
Other Funds	—	824.00	323.57	500.43
Total Program Expenditures	\$ 37,810,086.00	\$ 38,531,414.00	\$ 37,831,634.37	\$ 699,779.63

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Growing Georgia				
Expenditures by Funding Source:				
State Appropriation				
State General Funds	\$ 882,700.00	\$ 882,700.00	\$ 882,700.00	\$ 0.00
Federal Funds				
Special Federal Assistance Grant	—	500,006.00	500,000.00	6.00
Federal Funds Not Itemized	—	33,081.00	26,495.94	6,585.06
Total Program Expenditures	\$ 882,700.00	\$ 1,415,787.00	\$ 1,409,195.94	\$ 6,591.06

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Educated Georgia				
Expenditures by Funding Source:				
State Appropriation				
State General Funds	\$ 3,370,358.00	\$ 3,150,000.00	\$ 3,135,619.61	\$ 14,380.39
Lottery Funds	2,000,000.00	2,000,000.00	2,000,000.00	0.00
Federal Funds				
Federal Funds Not Itemized	20,000.00	20,000.00	19,857.62	142.38
Other Funds	—	40,362.00	33,219.92	7,142.08
Total Program Expenditures	\$ 5,390,358.00	\$ 5,210,362.00	\$ 5,188,697.15	\$ 21,664.85

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Best Managed State				
Expenditures by Funding Source:				
State Appropriation				
State General Funds	\$ 637,500.00	\$ 637,500.00	\$ 637,490.00	\$ 10.00

Summary of GASB 42 – Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

Tests for impairment (both factors must be present):

1. The magnitude of the decline in service utility is significant
2. The decline in service utility is unexpected

Note: The events or changes in circumstances affecting a capital asset that may indicate impairment are prominent – that is, conspicuous or known to the government (such events or circumstances generally are expected to have prompted discussion by the governing board, management, or the media). If there are no such known events, the government is not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of normal operations.

The magnitude of the decline in service utility is significant – a significant decline is evidenced by the continuing operating expenses related to the use of the impaired capital asset or the costs to restore the asset are significant in relationship to the current service utility

The decline in service utility is unexpected – restoration costs are generally not part of a capital asset's normal life cycle; if they were later contemplated because of an event or change, that development would suggest an unexpected decline in the service utility of the capital asset. Normal maintenance costs or preservation costs do not suggest the impairment of a capital asset.

Common indicators of impairment:

- a. Evidence of physical damage, such as for a building damaged by fire or flood; when the level of damage is such that restoration efforts are needed to restore service utility
- b. Enactment or approval of laws or regulations or other changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet)
- c. Technological development or evidence of obsolescence, such as that related to a major piece of diagnostic or research equipment (for example, a magnetic resonance imaging machine or a scanning electron microscope) that is rarely used because newer equipment provides better service
- d. A change in the manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life
- e. Construction stoppage, such as stoppage of construction of a building due to lack of funding.

Measuring Impairments (portion of historical cost that should be written off):

Capital Assets that will continue to be used by the Government

Use the method described below that *most appropriately reflects* the decline in service utility:

- a. **Restoration cost approach.** Amount necessary to return the capital asset to its original condition (does not include any amount attributable to improvements and additions). The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost using an appropriate cost index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset. *This method should generally be used for impairments resulting from physical damage.*
- b. **Service units approach.** This approach isolates the historical cost of the service utility of the capital asset that cannot be used. The amount of impairment is determined by evaluating the service provided by the capital asset before and after the event or change in circumstances. *This method should generally be used for impairments resulting from enactment or approval of laws or regulations or other changes in environmental factors or from technological development or obsolescence. This method may also be appropriate for impairments identified from a change in manner or duration of use.*
- c. **Deflated depreciated replacement cost approach.** This approach replicates the historical cost of the service produced. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars. *This method may be appropriate for impairments identified from a change in manner or duration of use.*

Capital Assets that will no longer be used by the Government (includes construction stoppage)

Report at lower of carrying value or fair value.

Reporting Impairment Losses (proprietary funds)

Report as operating expense, special or extraordinary item (see GASB 34, paragraphs 101-102 [program expenses], paragraph 56 [special items], paragraph 55 [extraordinary items]), as appropriate.

A general description, the amount, and the financial statement classification of the impairment loss should be disclosed in the Notes.

Insurance Recoveries (proprietary funds)

- Restoration or replacement costs should be reported separately from the impairment loss and associated insurance recovery
- The impairment loss should be reported net of any insurance recovery when the recovery is realized or realizable in the same year as the impairment loss
- Insurance recovery proceeds that are realized or realizable in a period subsequent to the recognition of the impairment loss should be reported as program revenue, nonoperating revenue, or an extraordinary item.